

VILLAGE OF ALLEN

AUDIT REPORT

JUNE 30, 2007

# Auditing Procedures Report

Instructions and MuniCodes

\*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

Unit Name* VILLAGE OF ALLEN	County* HILLSDALE	Type* VILLAGE	MuniCode* 30-3-010
Opinion Date-Use Calendar* Sep 19, 2008	Audit Submitted-Use Calendar* Sep 29, 2008	Fiscal Year End Month* 06	Fiscal Year* 2007

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

- ☒ ? 1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
- ☒ ? 2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
- ☐ ? 3. Were the local unit's actual expenditures within the amounts authorized in the budget?
- ☒ ? 4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
- ☒ ? 5. Did the local unit adopt a budget for all required funds?
- ☒ ? 6. Was a public hearing on the budget held in accordance with State statute?
- ☒ ? 7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
- ☒ ? 8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
- ☒ ? 9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
- ☒ ? 10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
- ☒ ? 11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
- ☐ ? 12. Is the local unit free of repeated reported deficiencies from previous years?
- ☒ ? 13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA
- ☒ ? 15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
- ☒ ? 16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
- ☒ ? 17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
- ☒ ? 18. Are there reported deficiencies? ☒ 19. If so, was it attached to the audit report?

General Fund Revenue:	? \$ 25,317.00
General Fund Expenditure:	? \$ 23,661.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	? \$ 54,380.00
Governmental Activities Long-Term Debt (see instructions):	?

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* GREG	Last Name* BAILEY	Ten Digit License Number* 1101022915		
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CPA Firm Name* BAILEY, HODSHIRE & COMPANY	Unit's Street Address* PO BOX 145	Unit's City* ALLEN	Unit's Zip* 49227	

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Bailey, Hodshire  
& Company, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Village Council  
Village of Allen  
Allen, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Village of Allen, as of and for the year ended June 30, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Allen's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Village of Allen, as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 5 and pages 17 through 20, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Bailey, Hodshire & Company, P.C.*  
Jonesville, Michigan  
September 19, 2008

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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This section of the Village of Allen's annual financial report presents the Management's Discussion and Analysis (MD&A) of the Village's financial activities during the fiscal year ended June 30, 2007. The analysis focuses on the Village's financial performance as a whole. It is intended to be read as part of the Village's financial statements, which immediately follow this section.

### FINANCIAL HIGHLIGHTS

- The assets of the Village of Allen exceeded its liabilities at June 30, 2007, by \$315,143. Of this amount, \$230,809 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors. The net assets of the Village increased by \$5,913 during the year.

### USING THIS REPORT

The annual report consists of a series of financial statements including other requirements as follows:

1. Management's Discussion & Analysis introduces the basic financial statements and provides an analytical overview of the Village's financial activities.
2. Government-wide financial statements consist of a *statement of net assets* and a *statement of activities*. These provide information about the activities of the Village as a whole and represent an overall view of the Village's finances.
3. Fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the most significant funds.
4. Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
5. Required supplementary information, other than the MD&A, provides information about the required budgetary comparison information.

### REPORTING THE VILLAGE AS A WHOLE

The government-wide financial statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Village's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

One of the most important questions asked about the Village's finances is: Is the Village as a whole better off or worse off as a result of the year's activities? The statement of net assets and the statement of activities report information on the Village as a whole and its activities in a way that helps answer this question. These statements include *all* assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. The two statements report the Village's *net assets* - - the difference between assets and liabilities - - as one way to measure the Village's financial health, or financial position. Over time, increases or decreases in the Village's net assets are one indicator of whether its financial health is improving or deteriorating. Additional factors such as changes in the Village's property tax base and the condition of the Village's infrastructure are also important in making this decision.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### REPORTING THE VILLAGE'S MOST SIGNIFICANT FUNDS

The fund financial statements provide detailed information about the Village's most significant funds, not the Village as a whole. Some funds are required to be established by state law and by bond covenants. The Village may establish other funds to account for and manage revenue and expenditures that are related to specific projects (i.e. capital improvements), grants or other purposes.

*Governmental Funds* - All of the Village's basic services are included in governmental funds. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Governmental funds include the General Fund and Special Revenue Funds (Major Street and Local Street). These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed, short-term view of the Village's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The following table shows the Village's net assets as of June 30, 2006, and June 30, 2007:

	<u>6-30-06</u>	<u>6-30-07</u>
ASSETS		
Current assets	\$ 221,428	\$ 231,244
Noncurrent assets	<u>88,230</u>	<u>84,344</u>
Total assets	<u>\$ 309,658</u>	<u>\$ 315,588</u>
LIABILITIES		
Current liabilities	\$ 418	\$ 435
Long-term liabilities	<u>0</u>	<u>0</u>
Total liabilities	<u>\$ 418</u>	<u>\$ 435</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 82,702	\$ 78,930
Invested in joint venture	5,528	5,414
Restricted	0	0
Unrestricted	<u>221,010</u>	<u>230,809</u>
Total net assets	<u>\$ 309,240</u>	<u>\$ 315,153</u>

A portion of the Village's net assets is invested in capital assets (e.g. land, infrastructure, buildings, and equipment), less related debt (if any). Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The total unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints, is \$230,809 at June 30, 2007.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table provides the Village's change in net assets for the years ended June 30, 2006 and 2007:

	<u>2005-06</u>	<u>2006-07</u>
Program revenue		
Charges for services	\$ 5	\$ 25
Operating grants and contributions	14,899	9,569
Capital grants and contributions	0	0
General revenue		
Property taxes	7,389	7,357
State Shared Revenue	18,674	16,168
Interest Income	4,229	8,668
Other	94	219
Total revenue	<u>\$ 45,290</u>	<u>\$ 42,006</u>
Expenses		
General government	\$ 18,619	\$ 17,880
Public works	13,031	16,599
Parks and recreation	<u>1,418</u>	<u>1,614</u>
Total expenses	<u>\$ 33,068</u>	<u>\$ 36,093</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 12,222</u>	<u>\$ 5,913</u>

### INDIVIDUAL GOVERNMENTAL FUND ANALYSIS

As the Village of Allen completed its year, its governmental funds reported a total fund balance of \$230,809, which is more than the \$221,010 fund balance at June 30, 2006.

- The General Fund, the operating fund for the Village, ended the year with a \$54,380 fund balance, compared to the prior year ending fund balance of \$52,724.
- Major Street Fund Balance increased by \$4,817.
- Local Street Fund Balance increased by \$3,326.

### BUDGETARY HIGHLIGHTS

Higher property taxes and slightly higher state-shared revenue and interest on CDs allowed for higher than anticipated revenues for the year. Also, decreased expenditures, especially the decision not to do sidewalk repair, led to an overall increase in the operating surplus.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

The Village's investment in capital assets, including land, buildings and improvements, equipment, roadways and other infrastructure represents the value of the resources utilized to provide services to citizens. Capital assets totaled \$78,930 (net of accumulated depreciation) at June 30, 2007. See the notes to the financial statements for more information about the Village's capital assets. There was no capital outlay during the year 2006-07.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The budget for fiscal year 2007-08 was based on prior year figures, taking into consideration the reduction in the millage rate by the Headlee Amendment to 1.94430 mills. We also anticipated a reduction in state revenue sharing and lower interest rates.

Expenditures were budgeted similarly to the prior year with three main exceptions being additional budgeted to cover the upcoming election, the audit being due this year, and the addition of money budgeted for sidewalk repair.

### **CONTACTING THE VILLAGE'S MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, customers, investors, creditors, and other interested parties with a general overview of the Village's finances and operating activities. If you have any questions or require additional information, please contact the Village of Allen, P.O. Box 145, Allen, Michigan 49227.

## BASIC FINANCIAL STATEMENTS

VILLAGE OF ALLEN  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	Governmental Activities
<b>ASSETS</b>	
Current assets	
Cash	\$ 71,561
Certificates of deposit	154,453
Due from other governmental units	<u>5,230</u>
Total current assets	<u>\$ 231,244</u>
Noncurrent assets	
Investment in joint venture	\$ 5,414
Capital assets	
Land	31,268
Buildings and improvements	50,000
Equipment	12,913
Infrastructure	40,936
Less: accumulated depreciation	<u>(56,187)</u>
Total noncurrent assets	<u>\$ 84,344</u>
Total assets	<u><u>\$ 315,588</u></u>
<b>LIABILITIES</b>	
Current liabilities	
Payroll taxes payable	<u>\$ 435</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	\$ 78,930
Invested in joint venture	5,414
Unrestricted	<u>230,809</u>
Total net assets	<u>\$ 315,153</u>
Total liabilities and net assets	<u><u>\$ 315,588</u></u>

See accompanying notes to the basic financial statements.

VILLAGE OF ALLEN  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government:					
Governmental activities:					
General government	\$ 17,880	\$ 25	\$ 0	\$ 0	\$ (17,855)
Public works	16,599	0	9,569	0	(7,030)
Parks and recreation	<u>1,614</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,614)</u>
Total governmental activities	<u>\$ 36,093</u>	<u>\$ 25</u>	<u>\$ 9,569</u>	<u>\$ 0</u>	<u>\$ (26,499)</u>
General revenue:					
Property taxes levied for general purposes					\$ 7,357
State shared revenue					16,168
Unrestricted interest income					8,668
Miscellaneous					<u>219</u>
Total general revenue					<u>\$ 32,412</u>
Change in net assets					\$ 5,913
Net assets - beginning					<u>309,240</u>
Net assets - ending					<u>\$ 315,153</u>

See accompanying notes to the basic financial statements.

VILLAGE OF ALLEN  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash & cash equivalents	\$ 18,872	\$ 34,002	\$ 18,687	\$ 71,561
Certificates of deposit	32,626	61,134	60,693	154,453
Due from other governmental units	<u>3,317</u>	<u>1,331</u>	<u>582</u>	<u>5,230</u>
Total assets	<u>\$ 54,815</u>	<u>\$ 96,467</u>	<u>\$ 79,962</u>	<u>\$ 231,244</u>
LIABILITIES				
Accounts payable	\$ 435	\$ 0	\$ 0	\$ 435
FUND BALANCES				
Unreserved	<u>54,380</u>	<u>96,467</u>	<u>79,962</u>	<u>230,809</u>
Total liabilities and fund balances	<u>\$ 54,815</u>	<u>\$ 96,467</u>	<u>\$ 79,962</u>	<u>\$ 231,244</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF ALLEN  
Reconciliation of Fund Balances on the Balance Sheet  
for Governmental Funds to Net Assets of  
Governmental Activities on the Statement of Net Assets  
June 30, 2007

Fund Balances - total governmental funds	\$ 230,809
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	135,117
Deduct: accumulated depreciation	(56,187)

The investment in the joint venture Park Fund is not reported in the fund financial statements, but is reported in the government-wide financial statements	<u>5,414</u>
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Net assets of governmental activities	<u>\$ 315,153</u>
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The accompanying notes are an integral part of this statement.

VILLAGE OF ALLEN  
STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total Governmental Funds</u>
REVENUE				
Property taxes	\$ 7,357	\$ 0	\$ 0	\$ 7,357
State shared revenue	16,168	6,656	2,913	25,737
Interest income	1,548	3,757	3,363	8,668
Miscellaneous	<u>244</u>	<u>0</u>	<u>0</u>	<u>244</u>
Total revenue	<u>\$ 25,317</u>	<u>\$ 10,413</u>	<u>\$ 6,276</u>	<u>\$ 42,006</u>
EXPENDITURES				
General government	\$ 16,746	\$ 0	\$ 0	\$ 16,746
Public works	5,415	5,596	2,950	13,961
Parks and recreation	1,500	0	0	1,500
Capital outlay	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total expenditures	<u>\$ 23,661</u>	<u>\$ 5,596</u>	<u>\$ 2,950</u>	<u>\$ 32,207</u>
REVENUE OVER (UNDER) EXPENDITURES	\$ 1,656	\$ 4,817	\$ 3,326	\$ 9,799
FUND BALANCES - Beginning	<u>52,724</u>	<u>91,650</u>	<u>76,636</u>	<u>221,010</u>
FUND BALANCES - Ending	<u>\$ 54,380</u>	<u>\$ 96,467</u>	<u>\$ 79,962</u>	<u>\$ 230,809</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF ALLEN  
Reconciliation of Statement of Revenue, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Year Ended June 30, 2007

Net changes in fund balances - total governmental funds \$ 9,799

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	0
Deduct: depreciation expense	(3,772)

Net loss from the joint venture Park Fund is not recorded in the fund financial statements, but is recorded in the government-wide financial statements	<u>(114)</u>
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Change in net assets of governmental activities \$ 5,913

The accompanying notes are an integral part of this statement.



## NOTES TO THE FINANCIAL STATEMENTS

VILLAGE OF ALLEN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Village of Allen comprises a population of approximately 225 residents in Hillsdale County, Michigan. It operates under the Council-President form of government and provides the following services as authorized by its charter: highways and streets, parks and recreation, public improvements, and general administrative services.

The accounting policies of the Village of Allen conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The following is a summary of significant accounting policies used by the Village of Allen:

**Government-Wide and Fund Financial Statements**

Government-Wide Financial Statements - The statement of net assets and the statement of activities display financial information about the Village as a whole, excluding fiduciary activities. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Village's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, State revenue sharing, and other items not properly included among program revenues are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Village.

Fund Financial Statements - Fund financial statements report detailed information about the Village. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds (if any) are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

**Measurement Focus and Basis of Accounting**

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting including the reclassification or elimination of internal activity (between or within funds). Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is to be collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However,

VILLAGE OF ALLEN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Under the modified accrual basis, property taxes, State revenue sharing, interest, and grants are considered to be both measurable and available at fiscal year-end. Grants received before the eligibility requirements are met are recorded as deferred revenue.

**Financial Statement Presentation**

The Village uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Village functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

The Village reports the following major governmental funds:

General Fund - used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the laws of the State of Michigan.

Special Revenue Funds - used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust, or major capital projects) that are legally restricted to expenditures for specified purposes (i.e. Major Streets and Local Streets).

**Assets, Liabilities, and Net Assets**

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less.

Capital Assets - General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Village maintains a capitalization threshold of \$1,500. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings & improvements	50 years
Furniture & equipment	5 - 10 years
Infrastructure	25 years

Interfund Balances - On fund financial statements, receivables and payables resulting from short-term interfund loans are reported as "due to/from other funds." These amounts are eliminated on the government-wide statement of net assets.

VILLAGE OF ALLEN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Fund Balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Interfund Activity - Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Budgetary Information - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The legal level of budgetary control has been established by the Village Council at the activity level. Any budgetary modifications may only be made by resolution of the Village Council. All annual appropriations lapse at fiscal year end.

The Village follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements:

- 1) Prior to June 30, the Village Council proposes budgets for the fiscal year commencing on July 1.
- 2) A public hearing is conducted to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the Village, transfer of appropriations may be made by the authorization of the Village Council.
- 5) The Village Council is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

During the year, the Village incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	Elections	\$ 0	\$ 80	\$ 80
"	Legal Fees	100	459	359
"	Treasurer	2,200	2,308	108
"	Village Hall & Grounds	8,590	9,290	700
"	Miscellaneous	25	27	2
Major Streets	Contracted services	5,000	5,596	596

VILLAGE OF ALLEN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**NOTE 3 - DEPOSITS AND INVESTMENTS**

State laws authorize the Village to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Village's investment policy makes no further limitation on investments. As of June 30, 2007, the Village's deposits are in accordance with statutory authority.

The Village's deposits and investments are subject to several types of risk, which are examined in more detail as follows:

*Credit Risk* - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Village minimizes credit risk by limiting investments to the types of securities allowed by State law. The Village's investment policy puts no further limits on its investment choices.

*Concentration of Credit Risk* - The Village's investment policy places no limit on the amount the Village may invest in any one issuer.

*Custodial Credit Risk* - Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Village's deposits may not be returned to it. The Village does not have a formal policy for custodial credit risk. At June 30, 2007, the carrying amount of the Village's bank deposits was \$226,014 and the bank's balance was \$206,777. The entire bank balance was covered by federal depository insurance.

*Interest Rate Risk* - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Village has no policy that specifically identifies interest rate risk.

*Foreign Currency Risk* - The Village is not authorized to invest in investments which have this type of risk.

**Investments**

There were no investments held during the year.

**NOTE 4 - RECEIVABLES**

Accounts receivable at June 30, 2007, consists of State revenue sharing which is considered collectible in full.

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

There were no amounts due between funds at June 30, 2007, and there were no transfers made between funds during the year.

VILLAGE OF ALLEN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**NOTE 6 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 31,268	\$ 0	\$ 0	\$ 31,268
Capital assets being depreciated				
Buildings & Improvements	\$ 50,000	\$ 0	\$ 0	\$ 50,000
Equipment	12,913	0	0	12,913
Infrastructure	40,936	0	0	40,936
Less accumulated depreciation	(52,415)	(3,772)	0	(56,187)
Total capital assets being depreciated, net	\$ 51,434	\$ (3,772)	\$ 0	\$ 47,662
Total capital assets, net	\$ 82,702	\$ (3,772)	\$ 0	\$ 78,930

Depreciation expense was charged to functions/programs of the Village as follows:

General government	\$ 1,134
Public works	2,638
Total	<u>\$ 3,772</u>

**NOTE 7 - PROPERTY TAXES**

Real estate and personal property taxes are recorded as revenue in amounts equal to the total taxes levied. The total levy for 2007 was 2.0871 mills on a total state taxable value of approximately \$3,560,000. Village properties are assessed as of July 31 (the lien date) - taxes levied July 1 of the succeeding year and are due without interest to September 15. After the final collection date, unpaid real property taxes are added to the county delinquent tax rolls. Personal property taxes unpaid continue to be collected by the Village Treasurer.

**NOTE 8 - RISK MANAGEMENT**

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Village has purchased commercial insurance for each of these areas of risk. There have been no significant reductions in insurance coverages, and settled claims have not exceeded the amount of insurance coverage for the current or the three prior years.

**NOTE 9 - JOINT VENTURE**

The Village is a participant in a joint venture agreement with the Township of Allen for the operation of the Allen Community Park Fund (the "Park Fund"). In accordance with the provisions of Governmental Accounting Standards Board No. 14, the joint venture results from the ongoing financial responsibility of the Park Fund's operations agreed to by the municipalities pursuant to a contractual agreement. The Village and Township each appoint four members of the eight-member Park and Recreation Board which oversees the operations. The Village and the Township share ownership and funding requirements equally.

The Park Fund reported expenses in excess of revenue in the amount of \$227 for its year ended June 30, 2007. The Village has reported \$114 (50%) of the expenses over revenue in its Statement of Activities. The Village's investment in the joint venture is reported in the Statement of Net Assets in the amount of \$5,414 as of June 30, 2007. We also conducted the audit of the Park Fund's financial statements for the year ended June 30, 2007.

## REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF ALLEN  
SCHEDULE OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Property taxes	\$ 7,487	\$ 7,487	\$ 7,357	\$ 130
State Shared Revenue	13,500	13,500	16,168	2,668
Interest	1,110	1,110	1,548	438
Miscellaneous	<u>25</u>	<u>25</u>	<u>244</u>	<u>219</u>
Total revenue	<u>\$ 22,122</u>	<u>\$ 22,122</u>	<u>\$ 25,317</u>	<u>\$ 3,195</u>
EXPENDITURES				
GENERAL GOVERNMENT				
Village Council	\$ 2,160	\$ 2,160	\$ 1,747	\$ (413)
Elections	0	0	80	80
Audit fees	1,200	1,200	0	(1,200)
Legal fees	100	100	459	359
Clerk	2,285	2,285	2,276	(9)
Treasurer	2,200	2,200	2,308	108
Village Hall and grounds	8,590	8,590	9,290	700
Holidays and special events	150	150	110	(40)
Payroll taxes	471	471	449	(22)
Miscellaneous	<u>25</u>	<u>25</u>	<u>27</u>	<u>2</u>
Total general government	<u>\$ 17,181</u>	<u>\$ 17,181</u>	<u>\$ 16,746</u>	<u>\$ (435)</u>
PUBLIC WORKS				
Sidewalks	\$ 3,500	\$ 3,500	\$ 0	\$ (3,500)
Drains	30	30	0	(30)
Streetlights	<u>4,875</u>	<u>4,875</u>	<u>5,415</u>	<u>540</u>
Total public works	<u>\$ 8,405</u>	<u>\$ 8,405</u>	<u>\$ 5,415</u>	<u>\$ (2,990)</u>
RECREATION AND CULTURE				
Parks	<u>\$ 1,500</u>	<u>\$ 1,500</u>	<u>\$ 1,500</u>	<u>\$ 0</u>
Total expenditures	<u>\$ 27,086</u>	<u>\$ 27,086</u>	<u>\$ 23,661</u>	<u>\$ (3,425)</u>
REVENUE OVER (UNDER) EXPENDITURES	\$ (4,964)	\$ (4,964)	\$ 1,656	\$ 6,620
FUND BALANCES - Beginning	<u>48,017</u>	<u>48,017</u>	<u>52,724</u>	<u>4,707</u>
FUND BALANCES - Ending	<u>\$ 43,053</u>	<u>\$ 43,053</u>	<u>\$ 54,380</u>	<u>\$ 11,327</u>

The accompanying notes are an integral part of this statement.



VILLAGE OF ALLEN  
SCHEDULE OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
MAJOR STREETS FUND  
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
State shared revenue	\$ 8,000	\$ 8,000	\$ 6,656	\$ (1,344)
Interest	<u>1,530</u>	<u>1,530</u>	<u>3,757</u>	<u>2,227</u>
Total revenue	<u>\$ 9,530</u>	<u>\$ 9,530</u>	<u>\$ 10,413</u>	<u>\$ 883</u>
EXPENDITURES				
Street construction	\$ 0	\$ 0	\$ 0	\$ 0
Routine maintenance				
Contracted services	150	150	0	(150)
Winter maintenance				
Contracted services	5,000	5,000	5,596	596
Administration				
Contracted services	<u>700</u>	<u>700</u>	<u>0</u>	<u>(700)</u>
Total expenditures	<u>\$ 5,850</u>	<u>\$ 5,850</u>	<u>\$ 5,596</u>	<u>\$ (254)</u>
REVENUE OVER (UNDER) EXPENDITURES	\$ 3,680	\$ 3,680	\$ 4,817	\$ 1,137
FUND BALANCES - Beginning	<u>84,744</u>	<u>84,744</u>	<u>91,650</u>	<u>6,906</u>
FUND BALANCES - Ending	<u>\$ 88,424</u>	<u>\$ 88,424</u>	<u>\$ 96,467</u>	<u>\$ 8,043</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF ALLEN  
SCHEDULE OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
LOCAL STREETS FUND  
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
State shared revenue	\$ 5,000	\$ 5,000	\$ 2,913	\$ (2,087)
Interest	<u>1,520</u>	<u>1,520</u>	<u>3,363</u>	<u>1,843</u>
Total revenue	<u>\$ 6,520</u>	<u>\$ 6,520</u>	<u>\$ 6,276</u>	<u>\$ (244)</u>
EXPENDITURES				
Street construction	\$ 0	\$ 0	\$ 0	\$ 0
Routine maintenance				
Contracted services	150	150	64	(86)
Winter maintenance				
Contracted services	3,000	3,000	2,886	(114)
Administration				
Contracted services	<u>500</u>	<u>500</u>	<u>0</u>	<u>(500)</u>
Total expenditures	<u>\$ 3,650</u>	<u>\$ 3,650</u>	<u>\$ 2,950</u>	<u>\$ (700)</u>
REVENUE OVER (UNDER) EXPENDITURES	\$ 2,870	\$ 2,870	\$ 3,326	\$ 456
FUND BALANCES - Beginning	<u>73,607</u>	<u>73,607</u>	<u>76,636</u>	<u>3,029</u>
FUND BALANCES - Ending	<u>\$ 76,477</u>	<u>\$ 76,477</u>	<u>\$ 79,962</u>	<u>\$ 3,485</u>

The accompanying notes are an integral part of this statement.

# Bailey, Hodshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

479 E. CHICAGO STREET  
P.O. BOX 215  
JONESVILLE, MI 49250

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E-MAIL: BAILEYHODSHIRE@SBCGLOBAL.NET

September 19, 2008

Village of Allen  
Allen, Michigan

In planning and performing our audit of the financial statements of the Village of Allen as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

#### Segregation of Duties

Although there are policies and procedures in place to provide adequate segregation of duties, the positions of Village President and Village Treasurer are currently held by the same person, which potentially compromises these policies and procedures. We recommend that a different person be appointed to fill one of these positions as soon as possible.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the following deficiency constitutes a material weakness:

Financial Statement Preparation

The Village does not have procedures in place to prepare financial statements in accordance with accounting principles generally accepted in the United States of America, including procedures to record accruals for revenue and expenditures, to track changes in capital assets, and to present required financial statement disclosures. We recognize the time and expense that would be required to obtain the necessary training and expertise to perform this task internally; therefore, we recommend that the Village continue to carefully review the draft financial statements and notes prepared by the external auditors prior to approving them and accepting responsibility for their content and presentation.

In addition, we noted other matters involving the internal control and its operation that we did not consider to be significant deficiencies or material weaknesses, but are opportunities for improvement in internal control.

Annual Budget

The Board minutes for the required annual public hearing on the budget should include a general description of any comments made by the public. In addition, the budget should be monitored carefully throughout the year and amended when necessary to avoid any over-expenditure.

Investment Policy

The Village should adopt a revised investment policy to comply with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 40.

Audit

There continues to be a need for more timely submission of the Village's bi-annual audit report in order to avoid financial penalties from the State of Michigan. Financial records need to be submitted to the auditor in August/September in order to meet the December 31 deadline every two years (the next due date is 12-31-2009).

This communication is intended solely for the information and use management, the Village Council, and others within the Village, and is not intended to be and should not be used by anyone other than these specified parties.

*Bailey, Haldane + Company, P.C.*

Jonesville, Michigan  
September 19, 2008

# Bailey, Hodshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

479 E. CHICAGO STREET  
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September 19, 2008

To the Village Council  
Village of Allen  
Allen, Michigan

We have audited the financial statements of the governmental activities and each major fund of the Village of Allen for the year ended June 30, 2007, and have issued our report thereon dated September 19, 2008. Professional standards require that we provide you with the following information related to our audit.

#### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 27, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

#### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to Village President Susan Vavro.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village of Allen are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2007. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the calculation of depreciation expense on capital assets.

Management's estimate of the depreciation expense is based on estimating the useful lives of capital assets and spreading the assets cost out over their useful lives as depreciation expense. We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 19, 2008.

*Management Consultations with Other Independent Accountants*

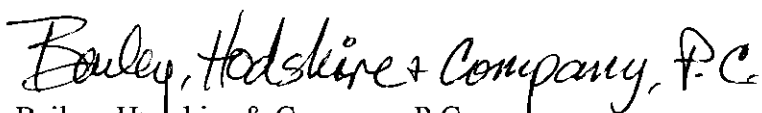
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Village Council and management of the Village of Allen and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

  
Bailey, Hodshire & Company, P.C.